



CITY OF SACRAMENTO

DEPARTMENT OF PUBLIC WORKS

SOLID WASTE DIVISION

JOHN F. BOSS
Solid Waste Division Manager

June 17, 1986

Transportation and Community Development/
Budget and Finance Committees
Sacramento, California

Honorable Members In Session:

SUBJECT: CALIFORNIA CO-COMPOST SYSTEMS, INC. - CONTRACT PROPOSAL

SUMMARY

At its meeting of October 29, 1985, the City Council agreed to provide California Co-Compost Systems, Inc. (CCSI) up to six months to prepare and submit a contract proposal for solid waste disposal. A "Solid Waste Disposal Agreement" (Draft Proposal) between CCSI and the City of Sacramento was received on June 10, 1986 by the Assistant City Manager's Office and distributed to selected staff for review and comment. The salient points of the draft agreement are transmitted herewith.

BACKGROUND

During the summer and fall of 1985, the Department of Public Works conducted a comprehensive planning study for solid waste disposal. Results of that effort were submitted to City Council on October 29, 1985. The Council concurred with staff to defer consideration of waste-to-energy, to abandon consideration of opening the Granite Gravel Quarry as a solid waste landfill, and to proceed with the planning, permitting and construction of a solid waste transfer station. Council also responded to a request by CCSI to allow that firm up to six additional months to prepare and submit a contract proposal for solid waste disposal.

It is staff's understanding that CCSI was to, within six months, submit a proposal for consideration, detailing costs and conditions for the City to supply waste to a co-composting plant proposed to be developed at the Sacramento County Landfill located on Kiefer Road near Sunrise Boulevard. It is also staff's understanding that the co-compost proposal would be of sufficient detail to allow comparison with other final disposal options for solid waste materials delivered from a centrally located transfer station; i.e., comparison with the option of contracting with Sacramento County for disposal at its landfill.

By letter dated April 21, 1986, CCSI transmitted a report and recommendation for City Council to consider contract negotiations with CCSI at its April 29, 1986 meeting. The chairs of the Transportation and Community Development and Budget and Finance Committees considered the submittals to be unacceptable as representing a detailed proposal. CCSI was instructed to present a detailed proposal by June 10, 1986 representing their best efforts to describe CCSI's contract requirements of the City which would be needed to make the project feasible. A draft :Solid Waste Disposal Service Agreement: between the City of Sacramento and California Co-Compost Systems, Inc. dated May 20, 1986 was received by City staff on June 10, 1986.

A summary, as interpreted by City staff, of salient contract proposal items is presented as follows:

- o Types and quantities of wastes to be delivered by the City and accepted by CCSI are defined.
- o Responsibilities of CCSI in obtaining financing, and in constructing, operating and maintaining the facility are defined.
- o The City will pay a service fee to CCSI which covers all costs of operation, maintenance and residue disposal, all debt service payments, and a reasonable profit for CCSI. The estimated amount of this fee is not given in the draft contract. An estimated tip fee was presented earlier as part of CCSI's original proposal.
- o The City will receive a percentage of product sales revenues. When revenues do not exceed a certain amount, CCSI will guarantee a minimum revenue to the City. However, revenue credits to the City will be reduced to reflect CCSI sales fees, and to recover differences in actual/ guaranteed revenues during years that sales do not meet the guaranteed minimum. Also, no revenue credits or payments to the City will be made until all obligations to the bondholders are satisfied.
- o Contract provisions reflecting plant shut-down conditions (uncontrollable and controllable) are defined. It appears that in all cases the City will retain the responsibility of paying a service fee of sufficient size to cover all debt service costs. CCSI is prepared to pay a nominal "liquidated damages" fee for waste not accepted due to CCSI caused shutdowns.
- o Other contract provisions regarding facility alterations, indemnification, insurance, default, termination for cause, and miscellaneous terms and conditions are provided.

FINDINGS

Staff of the City Manager, Department of Public Works and City Attorney have reviewed the contract proposal and associated relevant documents. Our findings are as follows:

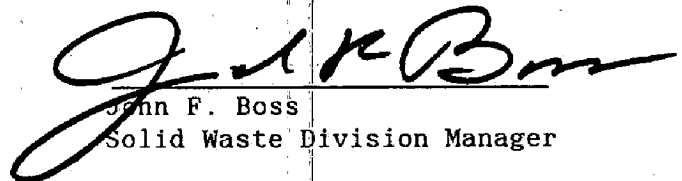
1. The proposal requires the City to pay a service fee sufficient to cover all costs associated with this project, including a profit for CCSI. The size of the service fee is not outlined in the proposal but is estimated to be considerably higher than the current and projected tip fees for similar disposal at Sacramento County's landfill.
2. Costs are to be reduced by revenue sharing. Conditions have not changed significantly to change staff's opinion that revenues are not assured. CCSI's revenues are predicated on the State of California finding that co-compost materials meet "specifications" and are "cost competitive". Based on previous experience, staff believes that testing will take many years before Caltrans will accept co-compost materials for noise and safety barriers.
3. The legislation (SB 2282 - Campbell) currently sponsored by CCSI has been reviewed by the City Attorney's office. In their opinion, this legislation does not provide any additional guarantees that State Agencies will provide long-term contracts for purchase of co-compost products.
4. The Contract proposal requires the City's tip fees to guarantee the debt service payments for the industrial revenue bonds. It appears the investment community is not sufficiently assured that State contracts will be available to guarantee debt service payments, and therefore will rely upon the "deep pockets" of the City to secure their investments.
5. The baseline, minimum revenue "guarantee" proposed by CCSI is considerably lower than that required to provide the City with a disposal cost commensurate with the alternate of disposal at the Sacramento County Landfill.
6. City staff believes that the proposed contract assigns all the main risks to the City, with the primary benefits tied to the unproven commitment of the State of California to sign long term contracts for co-compost purchase.

FINANCIAL

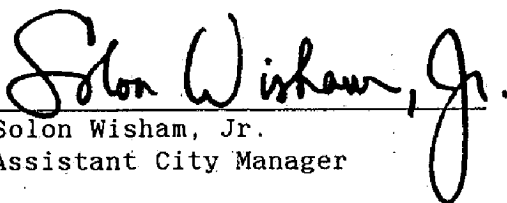
No specific service fees are listed in the proposed contract. However, based on cost figures presented to staff previously by CCSI, the service fees for solid waste disposal would be significantly higher than projected landfill disposal fees. Revenue guarantees proposed by CCSI are insufficient to reduce the service fees significantly. Additional revenues hinge on securing contracts for sale of co-compost. Caltrans (the prime contract candidate) must conduct lengthy tests and assessments before they will make findings that the co-compost meets technical standards and is cost competitive.

RECOMMENDATION

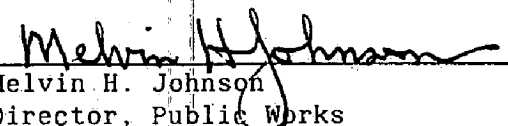
Staff recommends that the Transportation and Community Development/Budget and Finance Committees find the contract proposal presented by CCSI (dated May 20, 1986) as unacceptable to enter into negotiations, and that the Committees recommend to the City Council to suspend further consideration of a co-compost plant as currently proposed by CCSI.


John F. Boss
Solid Waste Division Manager

Recommendation Approved:


Solon Wisham, Jr.
Assistant City Manager

Approved:


Melvin H. Johnson
Director, Public Works

Attachments:

- I - Report and Recommendation from California Co-Compost Systems, Inc.
- II - Letter to Mr. Acosta from Solon Wisham, Jr. dated April 29, 1986.
- III - Letter to Mr. Acosta from Solon Wisham, Jr. dated May 21, 1986.
- IV - Letter to Solon Wisham, Jr. from Mr. Acosta dated June 9, 1986.

California Co-Compost Systems
Solid Waste Management Recovery Facilities

A Consortium of Private Business

- architects • design engineers • process engineers •
- constructors • operators • product marketing •



April 14, 1986

TO: THE HONORABLE LYNN ROBIE
Chairperson, Transportation and Community Development

THE HONORABLE JOSEPH SERNA
Chairman, Budget & Finance

COUNCIL COMMITTEES
CITY OF SACRAMENTO

RE: A REPORT AND RECOMMENDATION FROM CALIFORNIA CO-COMPOSTING
SYSTEMS, INC.

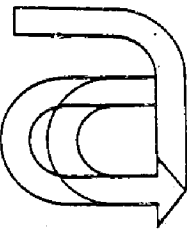
RECOMMENDATION

In accordance with an earlier Council Action to compare solid waste management options and therefore, to encourage additional waste management options in addition to the staff selection of transfer stations, California Co-Composting Systems, Inc. requests the following public hearings:

1. A presentation by CCSI to the Joint Committees on April 29, 1986 regarding contract negotiations.
2. If the Joint Committees concur with the CCSI presentation, that this Joint Committee action be presented to the full council at the evening meeting of April 29, 1986.
3. If the decision of the Council is to proceed with contract negotiations between CCSI and the City, that these negotiations be completed within thirty days and that the completed contract and the staff recommendation be brought before the Joint Committees for the recommendation and action.

SUMMARY

In September, 1985 the City Council directed that CCSI be allowed to present the Council with a Contract/Proposal for a co-composting



waste facility as an addendum to CCSI's previous Proposal to the City pursuant to an RFP in Solid Waste Options issued on July 23, 1985.

Although the City Evaluation Committee did not select the CCSI co-composting proposal as a solution to the City's landfill crisis, the Committee did select the concept of a Transfer Station with subsequent land disposal into landfills in the County of Sacramento landfill, the Yolo County landfill or other landfills, as available. Further, the Evaluation Committee and the Public Works Director indicated to Council that they would be providing the Council with further information on the Transfer Station option during the latter part of April, 1986.

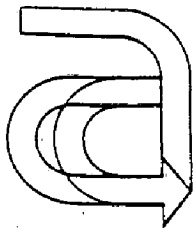
CCSI indicated to Council during that same meeting, that if the Council agreed, the CCSI Contract/Proposal could be compared to and perhaps (1) complement the transfer station concept, or, (2) provide the single full service disposal solution to the City's entire household refuse crisis for the next twenty (20) years.

The Council, at the conclusion of the item's discussion, agreed to receive the CCSI Contract/Proposal. It was unclear, however, in what manner the City would further evaluate the CCSI opportunity. During that same meeting, the Council agreed not to site any new landfills within City boundaries.

CCSI therefore concluded that if a local site could be located within Sacramento County and within reasonable hauling distance to the City Collection System, and if CCSI could provide assurance that economic benefits would accrue to the City, the CCSI Contract/Proposal would serve as a valid basis for cost comparison and resource recovery benefits along with the Transfer Station Concept or other solution presented by the City Public Works Department.

CCSI then went to the Sacramento County Regional Sanitation District to seek approval to enter into contract negotiations to purchase a portion of the waste stream from the facility for use in the co-composting process.

In addition, CCSI also went to the County Board of Supervisors to seek a similar approval to enter into contract negotiations to lease approximately a twenty acre site within the County Landfill boundary as the permanent location of the co-compost facility that would serve the total waste disposal needs of the City of Sacramento.



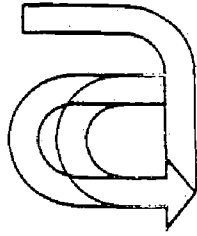
Both the Waste Board and the Board of Supervisors agreed to allow CCSI to enter into contract negotiations, respectively. CCSI met with a County Negotiating Team consisting of representation from the County Executive, the County Counsel, the Public Works Department, the Waste Treatment Department and the Sanitation Department.

Eleven (11) negotiating sessions ended with completed contract documents. The Board of Supervisors, at its regular meeting of April 8, concluded that, pending some final amendments to the proposed contracts, the Board would withhold final approval until the City Council chose to proceed and finalize a contract with CCSI. Thus, the two proposed CCSI contracts, negotiated between the County and CCSI, are "on hold", by Board Action, pending final agreement by the City Council of the City of Sacramento. If the Council chooses not to accept the CCSI Contract, then the negotiated contracts at the County level will no longer be relevant and the CCSI Project will no longer be considered by the County.

Concurrent with these local County Negotiations, CCSI sponsored legislation which described a mandated revenue to the City of Sacramento Co-Composting Resource Recovery Facility of \$7,600,000 each year, escalating at the CPI Index, as long as the Co-Compost Facility produces usable materials meeting State specifications and costing less than present State expenditures for similar or substitutable materials in the construction of Noise Attenuation Barriers.

This new legislation (Senate Bill 2282, Campbell, (R)) passed unanimously through the Senate Governmental Organization Committee on April 8, 1986. Because existing law for co-compost purchase was established during the 1984 Legislative Session, and because the Author of SB 2282 has accepted all requested amendments from the Department of Transportation, no further opposition is expected.

On April 3, 1986, the "Law and Legislation Committee", City of Sacramento agreed to support SB 2282 in the City's name. The Author has received the City's written support.



Thus, during the past six months, CCSI has provided the following advantages and accomplishments to support the CCSI contract/ Proposal:

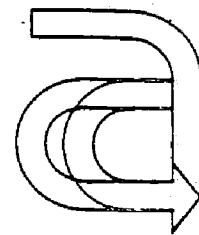
1. Provided for the potential site of the facility within a reasonable and economic hauling distance at no cost to the City of Sacramento.
2. Secured the complementary waste stream of sewer sludge at no cost to the City of Sacramento.
3. Sponsored State legislation directly benefiting the City of Sacramento to no less than \$7,600,000 per year for the twenty year life of the project at no cost to the City of Sacramento.
4. Provided additional State and Federal agreements that will utilize Industrial Development Bonds at no cost to the City of Sacramento, thereby maintaining a lower cost of construction that can be passed on to the garbagepayer in reduced collection rates.

This approach not only provides the total solution to the City's waste stream for the next twenty years, which could cost the City nothing, but which in fact provides a surplus each year, thus allowing the Council to reduce household refuse rates rather than raise them, as expected at the present time.

If the Council agrees to proceed with Contract Negotiations, the CCSI Financial Plan would detail and guarantee all aspects of the financing of the project, including the mandated revenue from the State of California to the Trustee in the City of Sacramento Co-Composting Resource Recovery Project.

Due to the competitive need to maintain and/or lower garbage collection rates to the household, CCSI would detail and guarantee fixed construction pricing that would be entirely offset by mandated revenues from the State. Therefore, the construction cost of the co-compost facility would be paid for by the State at no cost to the City of Sacramento.

So as to fully understand the scope of guarantees, liabilities and contract obligations that CCSI will assume in this project, the enclosed attachment, "Full Service Waste Disposal Management", identifies some of the more salient and critical guarantees, liabilities and contract obligations that remove all risk to the City of Sacramento while shifting the risk to CCSI and our subcontractors.

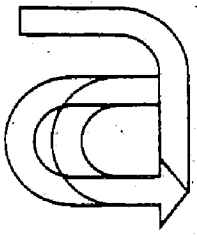


FULL SERVICE WASTE DISPOSAL MANAGEMENT
CALIFORNIA CO-COMPOSTING SYSTEMS, INC.

OWNER AND OPERATOR

California Co-Composting Systems, Inc. will provide the following guarantees, assume liabilities, and contract obligations, as Owner and Operator, in the design, construction and operation of co-compost resource recovery projects:

1. Guarantee all design engineering, construction, process engineering and equipment during the twenty-four month construction period;
2. Guarantee all end-product quality and quantity during the twenty year life of the project;
3. Guarantee all operations and maintenance of the co-compost facility for the twenty year life of the project;
4. Guarantee to provide the Letter of Credit for the entire construction cost and financing fees for the life of the project, as required;
5. Guarantee to provide a Standby Landfill Agreement for the life of the project in case of emergency shutdown;
6. Guarantee to provide a site for the co-compost facility;
7. Guarantee to seek a Federal Exemption from any changes in tax law that would affect tax benefits accruing from the purchase of Industrial Development Bonds that will fund the total project costs;
8. Guarantee to provide the Underwriter who would purchase the Bonds;
9. Guarantee to provide an Equity Contribution of twenty-five percent (25%);
10. Guarantee to provide the Bond Counsel;
11. Guarantee to provide the Financial Plan;
12. Guarantee to provide all data necessary for the Notice of Preparation of the Environmental Impact Report and the Final EIR;
13. Guarantee to provide the Final Resolution for the allocation of Industrial Development Bonds from the California Pollution Control Financing Authority (the CPCFA will issue the Bonds in their name);



14. Guarantee to provide a fixed price cost for construction and a base price for Operations & Maintenance that would escalate only at the CPI or some other mutually acceptable index;

15. Guarantee to provide a pollution free facility that emits no noxious odors into the air, no leachates or heavy metals into the land, and no toxic or hazardous waste liquids into the sewer system;

16. Guarantee to provide a substantive revenue share of surplus profits with the political jurisdiction for the life of the project;

17. Guarantee to provide the private investor with high returns given existing tax law as well as pending tax legislation;

18. Guarantee to provide necessary debt service coverage and provide a cash-on-cash return to the private investor; and,

19. Guarantee a model waste facility which has the support of the following California groups: (*)

- (a) the League of Cities
- (b) the County Supervisors Association
- (c) the State Sierra Club
- (d) the California Association of Sanitation Districts
- (e) the State of California
- (f) twelve cities and four counties
- (g) the State Waste Management Board

* Support groups for SB 1929

"Legislative intent to offset construction of co-compost facilities"
Enacted into law, 1984 Statutes, Chapter 1700, Public Contracts Code.



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

April 29, 1986

CITY HALL
915 I STREET - 95814
(916) 449-5704

Joaquin E. Acosta, Jr.
President & Chairman
California Co-Compost Systems
P.O. Box 10998
Marina de Rey, CA 90295

Dear Mr. Acosta:

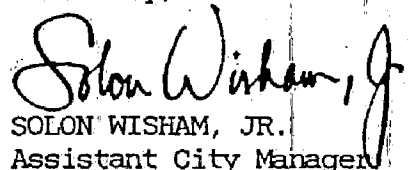
This letter is in response to your request to Councilmembers Lynn Robie and Joe Serna for a hearing before the Joint Committees of Transportation & Community Development and Budget & Finance of the City of Sacramento.

Mrs. Robie and Mr. Serna have agreed that the earliest meeting that you can be heard is 2:00 p.m., May 27, 1986 in the City Council Chambers, City Hall, 915 "I" Street in Sacramento, California.

In September, 1985, the City Council indicated a willingness to review a bonafide contract proposal from your company based on your prior representations. The City Council is not interested in a "sales pitch", but rather, receiving a detailed proposal which represents your best efforts to describe what your company wants from the City of Sacramento to make your project feasible. The conditions presented in your letter dated April 14, 1986 are unacceptable to the City staff and to Councilmembers Robie and Serna. We have no intention of committing potentially large amounts of City staff resources to negotiate a contract between the City and CCSI based on your representations thus far.

Simply put, you are being granted the courtesy to present a complete proposal to the joint committees of the City Council with no commitments that the City staff or the City Council committees will recommend the yet-to-be-defined proposal to the full Council for action. We prefer to receive your proposal in writing on or before Tuesday, May 20, 1986.

Sincerely,


SOLON WISHAM, JR.
Assistant City Manager

cc: Mayor & City Council
Walter J. Slife, City Manager
Mel Johnson, Director, Public Works
Jim Jackson, City Attorney
Board of Supervisors, County of Sacramento
Brian Richter, County Executive



OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
915 I STREET - 95814
(916) 449-5704

May 21, 1986

Joaquin E. Acosta, Jr.
President & Chairman
California Co-Compost Systems
P.O. Box 10998
Marina del Rey, California 90295

Dear Mr. Acosta:

This letter is in response to your request to reschedule your presentation to the Joint Committees of Transportation & Community Development and Budget & Finance of the City of Sacramento.

Your original meeting scheduled for May 27, 1986 has been reset for 2:00 p.m., June 17, 1986 in the City Council Chambers, City Hall 915 "I" Street, Sacramento, California. We were unable to accommodate your initial request for a June 3rd hearing because the City Council has a full calendar until June 17, 1986.

We will expect to receive a copy of your bonafide contract proposal so that it can be forwarded to the Committees in advance of the June 17th meeting. Our deadline to receive the material for distribution is June 10, 1986.

Sincerely,

Solon Wisham, Jr.
SOLON WISHAM, JR.
Assistant City Manager

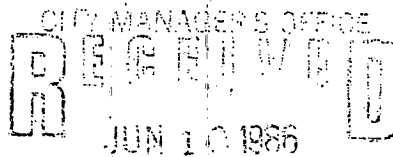
cc: Walter J. Slipe, City Manager
Mel Johnson, Director, Public Works
Jim Jackson, City Attorney
Walter Rohrer, Carissimi-Rohrer
Sacramento County Board of Supervisors
Brian Richter, County Executive

California Co-Compost Systems
Solid Waste Management Recovery Facilities

A Consortium of Private Business

- architects • design engineers • process engineers •
- constructors • operators • product marketing •

June 9, 1986



Solon Wisham, Jr., Asst. City Manager
City of Sacramento, Office of the City Manager
915 I Street, City Hall
Sacramento, California 95814

Dear Mr. Wisham:

As defined in your May 21, 1986 letter to CCSI requiring a "...bonafide contract proposal..", we are enclosing the following documents:

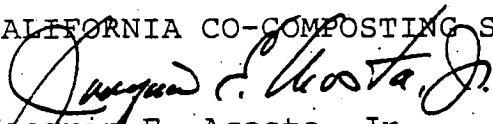
1. "Solid Waste Disposal Agreement" between CCSI and the City of Sacramento, Draft Proposal, May 20, 1986;
2. "Lease & Agreement" between CCSI and the County of Sacramento" to site the City of Sacramento Co-Compost Facility, April 16, 1986;
3. "Agreement" between CCSI and the Sacramento Regional County Sanitation District, to purchase waste stream, i.e., "sewer sludge", April 16, 1986; and,
4. "Recommendation", a Report by CCSI to the Joint Committees of Transportation and Budget, April 14, 1986.

As indicated in your letter, CCSI understands it will meet with the Joint Committees of Transportation and Budget on Tuesday, June 17, 1986 at 2:00PM in the City Council Chambers.

As defined in the City's original RFP, "Solid Waste Alternatives", the status of "Confidentiality" is placed on the CCSI Contract Document to the City of Sacramento: "Solid Waste Disposal Service Agreement. Pending the City Staff's recommendation to the Joint Committees, we request that this contract document not be distributed beyond the scope of the staff review group.

Sincerely,

CALIFORNIA CO-COMPOSTING SYSTEMS, INC.


Joaquin E. Acosta, Jr.
President & Chairman

cc: Walter Rohrer, AIA
Donald I. Burns, Esq.
Proposal Distribution List